

AMENDED IN ASSEMBLY APRIL 7, 2014

CALIFORNIA LEGISLATURE—2013–14 REGULAR SESSION

**ASSEMBLY BILL**

**No. 2578**

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**Introduced by Assembly Member Dababneh**

February 21, 2014

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An act to amend ~~Section 10203.8~~ *Sections 10271 and 10295.6* of the Insurance Code, relating to insurance.

LEGISLATIVE COUNSEL’S DIGEST

AB 2578, as amended, Dababneh. Insurance: ~~group life insurance; disability insurance; life insurance; accelerated death benefit.~~

*Existing law governs the business of insurance, and defines various types of insurance for these purposes, including life insurance and disability insurance. Existing law generally makes the requirements imposed on disability insurance contracts inapplicable to life insurance, endowment, and annuity contracts, or supplemental contracts thereto, that provide supplemental benefits in case of death or dismemberment or loss of sight by accident, operate to safeguard contracts against lapse, or give a special surrender benefit or an accelerated death benefit, as specified. Existing law requires that supplemental benefits specify any applicable exclusions and limits those exclusions to, among other things, a condition or loss caused by engaging in an illegal occupation.*

*This bill would include a condition or loss caused or substantially contributed to by engaging in aviation, other than as a fare-paying passenger, to the list of allowable exclusions to supplemental benefits.*

*Existing law defines an accelerated death benefit as a provision, endorsement, or rider added to a life insurance policy that provides for the advance payment of any part of the death proceeds, payable upon*

*the occurrence of a qualifying event, as provided. The insurer is required to provide the policyholder or certificate holder with a report, at least monthly, of any accelerated death benefits paid out during the prior month, an explanation of any changes to the policy or certificate, death benefits, and cash values on account of the benefits being paid out, and the amount of the remaining benefits that can be accelerated at the end of the prior month.*

*This bill would delete the requirement that the report be provided on a monthly basis.*

~~Existing law authorizes a life insurer to issue life, disability, term, and endowment insurance on the group plan with rates less than the usual rates for those insurance types. Existing law prescribes the permissible forms of group life insurance. Existing law provides that one of those forms of group life insurance is a policy covering the lives of every eligible member of a group of persons who become or are named depositors under an eligible savings account plan if, among other conditions, the total amount of insurance under the policy on any one depositor does not exceed \$1,500 on any one life.~~

~~This bill would increase the maximum amount of insurance on any one life under the policy to \$3,000.~~

Vote: majority. Appropriation: no. Fiscal committee: no.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     *SECTION 1. Section 10271 of the Insurance Code is amended*  
2     *to read:*  
3     10271. (a) Except as set forth in this section, this chapter shall  
4     not apply to, or in any way affect, provisions in life insurance,  
5     endowment, or annuity contracts, or contracts supplemental thereto,  
6     that provide additional benefits in case of death or dismemberment  
7     or loss of sight by accident, or that operate to safeguard those  
8     contracts against lapse, as described in subdivision (a) of Section  
9     10271.1, or give a special surrender benefit, as defined in  
10    subdivision (b) of Section 10271.1, or an accelerated death benefit  
11    as defined in Article 2.1 (commencing with Section 10295), in the  
12    event that the owner, insured, or annuitant, as applicable, meets  
13    the benefit triggers specified in the life insurance or annuity  
14    contract or supplemental contract.

1 (b) For the purposes of this section, the term “supplemental  
2 benefit” means a rider to or provision in a life insurance policy,  
3 certificate, or annuity contract that provides a benefit as set forth  
4 in subdivision (a).

5 (c) A supplemental benefit described in subdivision (a) shall  
6 contain all of the following provisions. However, an insurer, at its  
7 option, may substitute for one or more of the provisions a  
8 corresponding provision of different wording approved by the  
9 commissioner that is not less favorable in any respect to the owner,  
10 insured, or annuitant, as applicable. The required provisions shall  
11 be preceded individually by the appropriate caption, or, at the  
12 option of the insurer, by the appropriate individual or group  
13 captions or subcaptions as the commissioner may approve.

14 (1) A life insurance policy or annuity contract that contains a  
15 supplemental benefit shall provide that the contract, supplemental  
16 contract, and any papers attached thereto by the insurer, including  
17 the application if attached, constitute the entire insurance or annuity  
18 contract and shall also provide that no agent has the authority to  
19 change the contract or to waive any of its provisions. This provision  
20 shall be preceded individually by a caption stating “ENTIRE  
21 CONTRACT; CHANGES:” or other appropriate caption as the  
22 commissioner may approve.

23 (2) The supplemental benefit shall provide that reinstatement  
24 of the supplemental benefit shall be on the same or more favorable  
25 terms as reinstatement of the underlying life insurance policy or  
26 annuity contract. Following reinstatement, the insured and insurer  
27 shall have the same rights under reinstatement as they had under  
28 the supplemental benefit immediately before the due date of the  
29 defaulted premium, subject to any provisions endorsed in the rider  
30 or endorsement or attached to the rider or endorsement in  
31 connection with the reinstatement. This reinstatement provision  
32 shall be preceded individually by a caption stating  
33 “REINSTATEMENT:” or other appropriate caption as the  
34 commissioner may approve.

35 (3) A supplemental benefit subject to underwriting shall include  
36 an incontestability statement that provides that the insurer shall  
37 not contest the supplemental benefit after it has been in force during  
38 the lifetime of the insured for two years from its date of issue, and  
39 that the supplemental benefit may only be contested based on a  
40 statement made in the application for the supplemental benefit, if

1 the statement is attached to the contract and if the statement was  
2 material to the risk accepted or the hazard assumed by the insurer.  
3 This provision shall be preceded individually by a caption stating  
4 “INCONTESTABILITY:” or other appropriate caption as the  
5 commissioner may approve.

6 (4) The supplemental benefit shall provide either that the insurer  
7 may accept written notice of claim at any time or that the insurer  
8 may require that written notice of claim be submitted by a due date  
9 that is no less than 20 days after an occurrence covered by the  
10 supplemental benefit, or commencement of any loss covered by  
11 the supplemental benefit, or as soon after the due date as is  
12 reasonably possible. Notice given by or on behalf of the insured  
13 or the beneficiary, as applicable, to the insurer at the insurer’s  
14 address or telephone number, or to any authorized agent of the  
15 insurer, with information sufficient to identify the insured, shall  
16 be deemed notice to the insurer. This provision shall be preceded  
17 individually by a caption stating “NOTICE OF CLAIM:” or other  
18 appropriate caption as the commissioner may approve.

19 (5) The supplemental benefit shall provide that the insurer, upon  
20 receipt of a notice of claim, shall furnish to the claimant those  
21 forms as are usually furnished by it for filing a proof of occurrence  
22 or a proof of loss. If the forms are not furnished within 15 days  
23 after giving notice, the claimant shall be deemed to have complied  
24 with the requirements of the supplemental benefit as to proof of  
25 occurrence or proof of loss upon submitting, within the time fixed  
26 by the supplemental benefit for filing proof of occurrence or proof  
27 of loss, written proof covering the character and the extent of the  
28 occurrence or loss. This provision shall be preceded individually  
29 by a caption stating “CLAIM FORMS:” or other appropriate  
30 caption as the commissioner may approve.

31 (6) The supplemental benefit shall provide that the insurer may  
32 require that the insured provide written proof of occurrence or  
33 proof of loss no less than 90 days after the termination of the period  
34 for which the insurer is liable, and, in the case of claim for any  
35 other occurrence or loss, within 90 days after the date of the  
36 occurrence or loss. Failure to furnish proof within the time required  
37 shall not invalidate or reduce the claim if it was not reasonably  
38 possible to give proof within the time, provided proof is furnished  
39 as soon as reasonably possible and, except in the absence of legal  
40 capacity, no later than one year from the time proof is otherwise

1 required. This provision shall be preceded individually by a caption  
2 stating "PROOF OF LOSS:" or other appropriate caption as the  
3 commissioner may approve.

4 (7) The supplemental benefit shall provide that the insurer, at  
5 its own expense, shall have the right and opportunity to examine  
6 the person of the insured when and as often as the insurer may  
7 reasonably require during the pendency of a claim and to make an  
8 autopsy in case of death where it is not forbidden by law. This  
9 provision shall be preceded individually by a caption stating  
10 "PHYSICAL EXAMINATIONS:" or other appropriate caption  
11 as the commissioner may approve.

12 (d) The commissioner shall not approve any contract or  
13 supplemental contract for insurance or delivery in this state if the  
14 commissioner finds that the contract or supplemental contract does  
15 any of the following:

16 (1) Contains any provision, label, description of its contents,  
17 title, heading, backing, or other indication of its provisions that is  
18 unintelligible, uncertain, ambiguous, or abstruse, or likely to  
19 mislead a person to whom the supplemental benefit is offered,  
20 delivered, or issued.

21 (2) Constitutes fraud, unfair trade practices, or insurance  
22 economically unsound to the owner, insured, or annuitant, as  
23 applicable.

24 (3) Contains any actuarial information that is materially  
25 incomplete, incorrect, or inadequate.

26 (e) A supplemental benefit described in subdivision (a) shall  
27 not contain any title, description, or any other indication that would  
28 describe or imply that the supplemental benefit provides long-term  
29 care coverage.

30 (f) Commencing two years from the date of the issuance of the  
31 supplemental benefit, no claim for loss incurred or disability, as  
32 defined by the supplemental benefit, may be reduced or denied on  
33 the grounds that a disease or physical condition not excluded from  
34 coverage by name or specific description effective on the date of  
35 loss had existed prior to the effective date on the coverage of the  
36 supplemental benefit.

37 (g) With regard to supplemental benefits set forth in subdivision  
38 (a), the supplemental benefit shall specify any applicable  
39 exclusions, which shall be limited to the following:

1 (1) Condition or loss caused or substantially contributed to by  
2 any attempt at suicide or intentionally self-inflicted injury, while  
3 sane or insane.

4 (2) Condition or loss caused or substantially contributed to by  
5 war or an act of war, as defined in the exclusion provisions of the  
6 contract.

7 (3) Condition or loss caused or substantially contributed to by  
8 active participation in a riot, insurrection, or terrorist activity.

9 (4) Condition or loss caused or substantially contributed to by  
10 committing or attempting to commit a felony.

11 (5) Condition or loss caused or substantially contributed to by  
12 voluntary intake of either:

13 (A) Any drug, unless prescribed or administered by a physician  
14 and taken in accordance with the physician's instructions.

15 (B) Poison, gas, or fumes, unless they are the direct result of an  
16 occupational accident.

17 (6) Condition or loss in consequence of the insured being  
18 intoxicated, as defined by the jurisdiction where the condition or  
19 loss occurred.

20 (7) Condition or loss caused or substantially contributed to by  
21 engaging in an illegal occupation.

22 (8) *Condition or loss caused or substantially contributed to by*  
23 *engaging in aviation, other than as a fare-paying passenger.*

24 (h) If the commissioner notifies the insurer, in writing, that the  
25 filed form or actuarial information does not comply with the  
26 requirements of law and specifies the reasons for his or her opinion,  
27 it is unlawful for an insurer to issue any policy in that form.

28 *SEC. 2. Section 10295.6 of the Insurance Code is amended to*  
29 *read:*

30 10295.6. (a) When a policyholder or certificate holder requests  
31 an acceleration of death benefits, the insurer shall send a statement  
32 to the policyholder or certificate holder and irrevocable beneficiary  
33 showing any effect that the payment of the accelerated death benefit  
34 would have on the policy's cash value, accumulation account,  
35 death benefit, premium, policy loans, and policy liens. The  
36 statement shall disclose that receipt of accelerated death benefit  
37 payments may adversely affect the recipient's eligibility for  
38 Medicaid or other government benefits or entitlements. In addition,  
39 receipt of an accelerated death benefit payment may be taxable  
40 and assistance should be sought from a personal tax adviser. When

1 a previous disclosure statement becomes invalid as a result of an  
2 acceleration of the death benefit, the insurer shall send a revised  
3 disclosure statement to the policyholder or certificate holder and  
4 irrevocable beneficiary.

5 (b) The accelerated death benefit shall be effective not more  
6 than 30 days following the effective date of the policy provision,  
7 rider, endorsement, or certificate.

8 (c) If the insurer charges a separate premium for the accelerated  
9 death benefit, then the insurer may also offer a waiver of premium  
10 benefit as defined in subdivision (a) of Section 10271.1. At the  
11 time the waiver of the accelerated death benefit premium benefit  
12 is claimed, the insurer shall explain any continuing premium  
13 requirement to keep the underlying policy in force.

14 (d) An insurer shall not unfairly discriminate among insureds  
15 with different qualifying events covered under the policy or among  
16 insureds with similar qualifying events covered under the policy.  
17 An insurer shall not apply further conditions on the payment of  
18 the accelerated death benefits other than those conditions specified  
19 in the accelerated death benefit.

20 (e) The insurer shall provide the policyholder or certificate  
21 holder with a report, ~~at least monthly~~, of any accelerated death  
22 benefits paid out during the prior month, an explanation of any  
23 changes to the policy or certificate, death benefits, and cash values  
24 on account of the benefits being paid out, and the amount of the  
25 remaining benefits that can be accelerated at the end of the prior  
26 month. The insurer may use a calendar month or policy or  
27 certificate month.

28 (f) The conversion benefit available to group certificate holders  
29 on termination of employment pursuant to paragraph (2) of  
30 subdivision (a) of Section 10209 shall include a benefit comparable  
31 to the accelerated death benefit. This requirement may be satisfied  
32 by an individual policy or certificate. This requirement, subject to  
33 the approval of the commissioner, may be satisfied by arrangement  
34 with another insurer to provide the required coverage.

35 (g) When payment of an accelerated death benefit results in a  
36 pro rata reduction in cash value, the payment may be applied  
37 toward repaying a portion of the loan equal to a pro rata portion  
38 of any outstanding policy loans if disclosure of the effect of  
39 acceleration upon any remaining death benefit, cash value or  
40 accumulation account, policy loan, and premium payments,

1 including a statement of the possibility of termination of any  
2 remaining death benefit, is provided to the policyholder or  
3 certificate holder. The policyholder or certificate holder shall  
4 provide written consent authorizing any other arrangement for the  
5 repayment of outstanding policy loans.

6 ~~SECTION 1. Section 10203.8 of the Insurance Code is~~  
7 ~~amended to read:~~

8 ~~10203.8. Life insurance conforming to all of the following~~  
9 ~~conditions is another form of group life insurance:~~

10 ~~(a) Covering the lives of every eligible member of a group of~~  
11 ~~persons who become or are named depositors under a savings~~  
12 ~~account plan, established by a financial institution including~~  
13 ~~subsidiary or affiliated persons, which plan provides for periodic~~  
14 ~~deposits of like amounts.~~

15 ~~(b) The period during which the deposits may be made under~~  
16 ~~the plan does not exceed 60 consecutive months, and the total~~  
17 ~~amount of insurance under the policy on any one depositor does~~  
18 ~~not exceed the difference between the amounts deposited and the~~  
19 ~~maximum amount that may be deposited under the plan and does~~  
20 ~~not exceed three thousand dollars (\$3,000) on any one life.~~

21 ~~(c) The group numbers 100 new entrants yearly.~~

22 ~~(d) The policy is issued upon application of and made payable~~  
23 ~~to the financial institution as beneficiary, and the premiums are~~  
24 ~~paid by or through the financial institution.~~

25 ~~(e) The policy of insurance conforming to this section is not~~  
26 ~~subject to Section 10209 of this code or Section 704.100 of the~~  
27 ~~Code of Civil Procedure.~~